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THE ROLE OF TRANSNATIONAL CORPORATIONS IN THE NEW EUROPE

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On 31 January 1991, Mr. Karl P. Sauvant, Acting Assistant Director, Economic Issues, Policy Analysis and Research Division, United Nations Centre on Transnational Corporations (UNCTC) and Mr. Nikolai P. Zaitsev, Deputy Chief, Office of the Executive Director, UNCTC, briefed NGO representatives on the Role of Transnational Corporations in the New Europe.

Mr. Sauvant said there are about 20,000 companies which are of a transnational character, that is, which control assets in more than one country. The stock of foreign direct investment has reached $1.5 trillion, annual flows are currently $200 billion (which is 30 per cent of private capital flow to developing countries). The activities of transnational corporations (TNCs) are closely linked to financial flows, trade and technology flows. An estimated 40 per cent of world trade is conducted within TCs. 80 to 90 per cent of technology receipts are from parent companies abroad. To sum up, Mr. Sauvant said, TNCs are central to economic development; they are a dynamic element which may have both a positive and negative impact on economic growth.

With reference to the "New Europe," Mr. Sauvant pointed to the dramatic changes in Eastern Europe in 1989 and 1990 which set the countries undergoing peaceful revolutions on the way to a market economy. At the same time, Western Europe is developing further, with the European Community, (EC), at its core. The planned EC single market by the end of 1992 is creating a new dynamism in Europe and works as a magnet for other countries as well. Countries which have applied for EC membership include Austria and Malta, while Sweden and other countries are expected to follow. Eastern European countries consider applying as well, Mr. Sauvant said, noting that a "Common European House" is under construction.

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A pre-condition for the success for the New Europe will be that it is economically prosperous. As the principal agents to allocate capital, technology, know-how, and markets, the role of transnational corporations is crucial. In the European Community, TNCs have an important function in terms of integrating the market on the production level, that is, producing, selling and consuming. TNCs benefit from, but also contribute to the integration process in the EEC, according to Mr. Sauvant.

Turning to the situation in Eastern Europe, Mr. Sauvant said that, until recently, the economies of the region had been centrally planned and there was little room for transnational corporations. However, the stage is changing rapidly, as all countries are introducing market economies. With reference to the role of foreign direct investment, Mr. Sauvant turned the floor over to Mr. Nikolai P. Zaitsev.

Mr. Zaitsev said the expectations with regard to foreign direct investment in Eastern and Central Europe were quite high in the late 1980s. Foreign direct investment was seen as a means of bridging the two different economic and political systems and was channeled mainly through joint ventures. Since the profound political changes in the late 1980s and in 1990, Eastern and Central Europe and the Soviet Union see foreign direct investment and co-operation with transnational corporations as a means of creating new market economies, through creating a new legal framework and developing managerial skills in operating markets and as instruments of integrating their countries into the world economy. To this date, the impact of foreign direct investment and TNCs in this region has been minimal, the reasons being inadequate legal framework/protection of foreign capital, the imperfections of the supplies and distribution systems, the non-convertibility of local currencies and the high inflation over the last two-three years.

According to a study undertaken jointly by the World Bank, IMF, OECD and the European Bank for Reconstruction and Development published in December 1990, "The Economy of the USSR," foreign direct investment could make a major contribution to the structural transformation of the economy through capital infusion, transfer of technology and managerial skills and equally important by exposing domestic enterprises to market conditions. A number of laws and regulations recently adopted in Eastern and Central Europe and the USSR are creating a new investment climate, according to Mr. Zaitsev. As an example, Mr. Zaitsev pointed to The USSR Presidential Decree of 26 October 1990 which, he said, made a breakthrough in allowing foreigners to invest in joint ventures, to acquire property, shares, land-use rights and other securities.

The United Nations Centre on Transnational Corporations was one of the first United Nations departments to launch a programme of technical co-operation with the Soviet Union and countries of Central and Eastern Europe, Mr. Zaitsev said.

Co-operation includes facilitating negotiation and implementatation of joint ventures, seminars, assistance in designing foreign investment legislation, and development of much needed accounting systems and training. As part of its activities related to the establishment of free economic zones in that region, CTC recently finished a 500-page volume: "The Challenge of Free Economic Zones in Central and Eastern Europe" Mr. Zaitsev concluded.

Outlining effects the changing economy in Eastern Europe may have on developing countries, Mr. Sauvant pointed to some reasons for concern on the part of developing countries, especially with regard to foreign direct investment: Eastern Europe is quite attractive for companies, as it is a large and untapped market, has considerable supplies of raw materials such as oil, hard minerals and agricultural produce, has a highly skilled population, and is located very close to one of the richest markets in the world, the European Community. Clearly there is a fear, Mr. Sauvant said, that private funds may be invested in an easier accessible Eastern Europe than in developing countries. Whether this is happening is too early to tell, he added.

Developing countries also fear that aid, official development assistance, and earmarked funds for developing countries may be diverted to Eastern Europe. All countries have assured that this will not be the case, but the future will show where growth occurs, according to Mr. Sauvant. Furthermore, he referred to the issue of migration, which he called "potentially the hottest issue of the 1990s." The European Community has a large influx of people from North Africa and Eastern Europe. Germany received 800,000 people from Eastern Europe in 1990, while the Soviet Union, if free migration were legalized, may expect emigration of several million people.